

Liability Limitation Technical Conference

Presentation by
William B. Brown, CPCU, ARM
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Commission



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Background

- Currently, Vice President, McNeary Consulting, Inc., a risk management consulting firm with over 50 electric utility clients
- Previously, founded an independent risk-management consulting firm focused on the electric utility industry
- Hold degrees as a Chartered Property and Casualty Underwriter (CPCU) and an Associate in Risk Management (ARM)



Knowledge and Experience

- More than 25 years experience with utility insurance issues
- Managing Director of Electric Public Power Insurance Consortium (liability insurance Risk Purchase Group comprised of 34 public power utilities)
- Published several articles relating to insurance and risk management for utilities.

What I Do

- A. Analyze risk exposure of electric utilities
 - Operational exposures
 - Contractual exposures
 - Risk Mitigation factors/Loss control
 - Ability to retain risk
 - Frequency/severity forecast
- B. Examine current insurance coverage for adequacy
 - Breadth of Coverage
 - Non-Standard Exclusions
 - Limits of Liability
 - Appropriateness of Deductible or Retention



Tight Insurance Market

- September 11, 2001 World Trade Center Attack
- Enron bankruptcy and other energy company downfalls
- RTOs and transmission-only companies are new entities with no claim history
- Primary Excess liability markets limited to three major players, with one of these writing about 85% of US electric utilities



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Liability Risks

- Difficult to calculate a utility's risk of exposure to damages from service interruptions
 - Regional entities cover large regions increasing potential exposure
 - Lack of liability provisions to protect utilities and quantify risks
 - Loss of previous state protections in connection with federal tariff service
 - Lack of adequate liability insurance can lead to directors and officers liability suit if uninsured loss occurs



As a Result

- Can not determine appropriate level of insurance coverage
- Cost of existing insurance increases because of uncertainty in level of risk exposure
- In some instances, insurance not available

Existing Insurance Uncertainties

- No guarantees that current insurance coverage will always be available
- Insurance companies always re-assess risks
- Increased claims will expose utilities to cost increases or cancellation



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Benefits of a Liability Limitation Provision

- Would help mitigate the currently un-measurable liability risks
- Would give insurance companies the ability to measure potential loss exposure and quantify potential risk exposure
- Would make insurance products more available
- Would make insurance products less costly



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